

Anti-Fraud Bill

(Prepared remarks, not necessarily delivered verbatim)

8 a.m., Jan. 17, 2006

House Financial Institutions & Insurance Committee

HB 2482

3:30 p.m., Jan. 17, 2006

Senate Financial Institution, Housing and Consumer Protection Committee

SB 6234

Introduction

It's a dark and rainy night. You're headed for home after a long day in the office. A heavy rain is pelting down, and the windshield wipers on your car are barely keeping up, making it difficult to see. Suddenly, a car veers into your lane, cutting off the car in front of you. The red glare of brake lights fills your windshield as the drivers slam on the brakes.

It happens so quickly that before you can react and brake, you slam into the back of the car in front of you.

You don't know it, but you've just played the starring role in a staged auto accident. This particular scenario is known as the "Swoop and Squat." Both of the other drivers have played their parts well, and you are now a victim in their illegal game of insurance fraud.

The "accident" is just the opening act in a scam that could involve unscrupulous attorneys, medical clinics, auto repair businesses, "ghost shops" and others, before the final curtain falls and thousands of dollars are spent unnecessarily and unwittingly.

"Swoop and Squat" is just one of many variations and scenarios on the same theme: defrauding insurance companies.

Actually, I invented the details in this incident, but I can tell you the real thing is happening every day.

But surely, not here in Washington, you say

Actually, we believe that Washington is something of a hotbed for this type of illegal behavior. I say this for a couple of reasons. Unlike 41 other states including many of our western neighbors California, Arizona, Nevada, Utah and even tiny Idaho. Washington does not have a dedicated anti-fraud unit to sniff out this illegal activity, gather evidence and bring the perpetrators to trial.

Washington ranks 18th in the nation for total property and casualty premium volume, but we're ranked number 11 – and climbing up the list – for claims with suspected insurance fraud.

How much does insurance fraud cost us?

That's a good question.

- The National Insurance Crime Bureau estimates that 10 percent of all claims are fraudulent.
- Washington insurers reported \$4 billion in direct losses in 2004.
- That translates to a \$400 million price tag for Washington's insurance industry that year.

What this all means is that insurance fraud costs everyone, beginning with insurance companies and ending with consumers.

The Welcome Mat is out

You know that sign at the Oregon border that says "Welcome to Washington?" Well, until we aggressively go after this type of criminal activity, we should put up a green light to go with it because our lack of an anti-fraud unit is a virtual invitation for insurance scammers and organized rings to set up operations here.

Here's an example.

The National Insurance Crime Bureau is investigating an organized glass shop operation based in Spokane that specializes in fraudulent automobile windshield replacement claims. This operation is believed responsible for the submission of more than 50,000 questionable windshield replacement claims, totaling more than \$25 million, to insurance companies in 19 states, resulting in illegal refunds of nearly \$750,000.

California to the rescue

In another case, California authorities tipped local law enforcement officials to a phony medical clinic that was being operated in Seattle. The operator had fled California after authorities closed in on him there.

California ended up extraditing the man to face charges back there when it became apparent that Seattle authorities lacked the expertise and resources to pursue the case.

The stark truth

When it comes to insurance fraud in Washington, the stark truth is that we just don't have the resources to pursue this type of crime in an effective manner. We need the capability to root out scammers, prosecute them and send a strong message that Washington is no longer a safe place to practice insurance fraud.

My office has worked hard over the past several months . . . and we've coordinated our efforts with the insurance industry, law enforcement, the Attorney General's Office, prosecutors and others . . . to propose a fraud program.

We will start small

And we will build on our successes. We'll coordinate efforts with the National Insurance Crime Bureau and fraud units in other states to wage an effective campaign against these costly crimes.

Our proposal calls for annual reports to the Legislature so that you can follow our accomplishments and progress. Additionally, our proposal also establishes an advisory board (including industry representation) to advise both the Insurance Commissioner and Legislature, and to complete a comprehensive review of the program in 2010.

No cost to the public

I am not here today to request funding from an already strapped General Fund.

We don't need taxpayer money to create this unit.

I am simply requesting the authority to spend \$2 million from our agency's Regulatory Account, the mechanism funded by insurers (through assessments on premium volume) to pay for regulation of their industry.

And I can fund for this plan without an increase in the assessment that insurers already are paying.

This is money that we already receive. I simply need your authority to spend it.

Other paybacks

In addition to the benefits I've just outlined, we can anticipate that successful prosecutions will result in restitution as well as convictions. For example, Utah has a fraud unit similar to what we propose. In 2004, this unit obtained court orders for nearly \$8 million in restitution.

Creating a fraud program is truly a "win/win" for insurance consumers and insurance companies.

I realize that establishing a dedicated fraud unit in the Insurance Commissioner's Office will not eradicate the problem of insurance fraud in Washington. But it will focus attention on this costly problem, and as we build success in ferreting out fraud and prosecuting perpetrators, we'll be taking big strides toward making Washington less attractive to this criminal element.

Give us this tool and we'll work diligently to replace that green light on our borders with a stop sign that says, "Insurance fraud isn't tolerated here."

Thank you.